GORDON MACKAY & STORES LIMITED

23RD ANNUAL REPORT · JANUARY 31 · 1969


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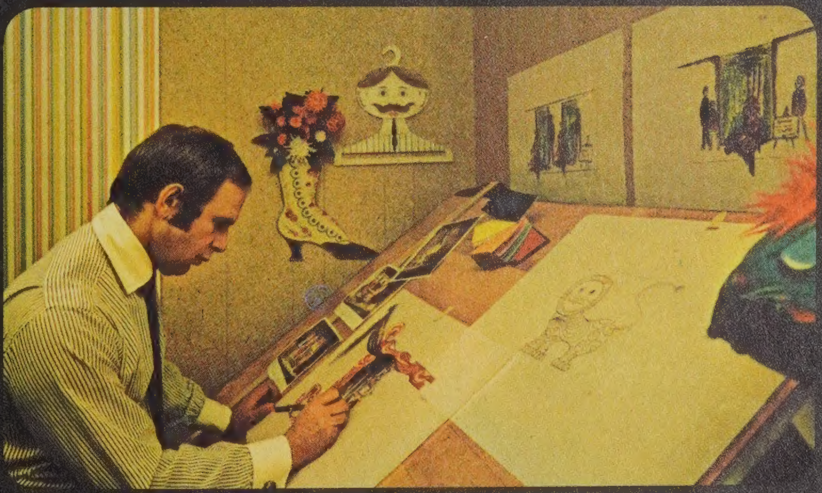
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SUBSIDIARY COMPANIES

Gordon Mackay and Company Limited
Smith's of Windsor Limited
C. H. Smith Holdings Limited
Walker Stores Limited

RETAIL STORES ARE OPERATED BY

SMITH'S OF WINDSOR LIMITED IN WINDSOR, ONTARIO

AND BY WALKER'S DIVISION OF GORDON MACKAY AND COMPANY LIMITED IN:

Arnprior
Barrie
Belleville
Bowmanville
Brantford
Brockville
Chatham
Collingwood
Dunnville
Fort William
Galt
Guelph
Kitchener
Lindsay
London
Midland
Newmarket
Niagara Falls
North Bay
Orillia
Oshawa
Owen Sound
Pembroke
Peterborough
Port Colborne
Renfrew
Ridgetown
St. Catharines
St. Thomas
Sault Ste. Marie:
- Churchill Plaza
- Queen Street

Simcoe
Smiths Falls
Stratford
Tillsonburg
Toronto:
- Cloverdale Mall
- Dixie Plaza
- Dufferin Plaza
- Golden Mile Plaza
- Rexdale Plaza
- Shopper's World

Woodstock

DIRECTORS

From left to right: Robert J. O'Donnell, Director; David M. Woods, President and Director; James W. Walker, Vice-President and Director.

DIRECTORS

A. W. Baillie
R. W. L. Laidlaw
R. J. O'Donnell
W. G. M. Robinson, O.B.E., C.A.
G. M. Scott, C.A.
J. W. Walker, O.B.E., Q.C.
W. L. Wheler
D. M. Woods
P. L. Woods

OFFICERS

President—David M. Woods
Vice-President—James W. Walker, O.B.E., Q.C.
Secretary-Treasurer—G. Martyn Scott, C.A.

TRANSFER AGENTS

National Trust Company, Limited, Toronto

COUNSEL

McCarthy & McCarthy, Toronto

HEAD OFFICE

Gordon Mackay Road, Box 532, Toronto 15, Ontario

AUDITORS

Clarkson, Gordon & Co., Toronto

DIRECTORS' REPORT TO THE SHAREHOLDERS

The program of consolidation referred to in last year's Annual Report has been continued throughout the 1968 year. Profits showed a satisfactory improvement, although sales volume was only slightly greater than last year.

SALES

At $35,350,000 sales showed an increase of $1,200,000, or 3.5%. Much of this improvement came in the stores acquired in the years 1965-66.

PROFITS

In spite of the modest sales gain, profits improved by 26%, due largely to effective control of expenses. While this profit level should not be regarded as satisfactory, it represents a continuing trend in the right direction. Net income from operations after taxes amounted to $501,000, compared to $392,000, representing earnings per Class 'B' share of $1.96, compared with $1.44 in the previous year.

DIVIDENDS

Dividends were declared and paid at the rate of 50¢ per share on both Class 'A' and Class 'B' shares. Dividends have been paid continuously on both classes of shares since 1946.

WORKING CAPITAL

During the year, working capital increased by $731,000, and at the Company's year end amounted to $2,599,000. Shareholders' equity, at $7,713,000, was $318,000 greater than a year ago.

OPERATIONS

Since the recent expansion program our principal objective has been to restore the profitability of the Company. During this period attention has been directed to improving profit rates rather than to further increasing the number of stores operated. It is a matter of satisfaction that this improvement has been achieved in each of the past two years and our forecast for the current year anticipates a continuation of this trend.

General costs, including salary rates, continued to rise and more than offset lower depreciation charges.

Productivity of stores improved slightly during the year, with increased sales per square foot of selling space. Higher costs were offset in part by operating economies, particularly by more effective use of selling staff and by centralization and mechanization of some operations previously carried on in individual stores.

Capital expenditures were restricted to maintenance levels after the heavy expenditures incurred in 1965 and 1966. The average capital investment for the five years 1964-1968 was slightly in excess of $1,000,000. Future years will require increased investment to ensure that our fixtures and equipment are kept up to date in view of constantly changing selling requirements.

Improvements have continued in our relationships with our suppliers. Over 95% of our purchases were made in Canada last year and it is likely that our merchandise will continue to have a high Canadian content. At the same time, better connections for the supply of imported products have been made in the quality markets abroad.

FINANCING

The special secured short term loans arranged with our Bankers have been continued and it is intended to fund this financing when satisfactory longer term arrangements can be made.

During the year it was gratifying to see an increased interest by investors in the Company's Class 'B' shares. The number of these shares traded on the Toronto Stock Exchange was larger than in recent years and at the year end there were substantially more Class 'B' shareholders than a year ago.

ORGANIZATION

Several changes were made in our organization during the year. Improvements in store supervision have been realized

through the appointment of a number of Area Managers; the Company's buying organization has been broadened to allow for further specialization; and the advertising operation has been strengthened through centralization of skills.

We are making more effective use of the talents of the women on our staff. Four stores are now managed by women, and women are taking over increased responsibilities as heads of departments in stores and the Toronto Office.

OUTLOOK

Again this year we plan no major expansion. To ensure that our premises remain in a fully competitive condition, additional capital expenditure will be necessary but the total will be of modest proportions.

The improving trend of profits over the past two years has brought growing confidence in the future of the business and has encouraged the direction of a greater share of management effort to longer term planning. We are now projecting our operations further ahead to develop a better picture of the Company's future requirements.

It is expected that profits will show further improvement in the present year and that the Company will continue to move closer to the objective of producing a satisfactory return on invested capital. It is important that profit levels be raised so that future expansion will be justified to our shareholders and to the financial community.

RECOGNITION

Our staff throughout the Company carried out their responsibilities effectively and with enthusiasm. On behalf of the Directors I wish to express appreciation to all of our colleagues.

On behalf of the Board,
D. M. Woods
President

Toronto
April 3, 1969

GORDON MACKAY & STORES LIMITED *(Incorporated under the laws of Ontario) and its subsidiaries*

CONSOLIDATED BALANCE SHEET *JANUARY 31, 1969 (with comparative figures at January 31, 1968)*

Assets

	1969	1968 (note 3)
Current assets:		
Cash	$ 229,228	$ 140,164
Accounts receivable	4,120,060	4,087,484
Inventories of merchandise valued at the lower of cost and net realizable value	5,236,852	4,721,675
Prepaid expenses and sundry assets	195,995	159,365
Mortgage receivable		258,097
Total current assets	9,782,135	9,366,785
5% special refundable tax		24,669
Deferred income tax charges (note 3)	112,000	78,000
Investment in shares, at cost (approximate market value 1969—$145,000; 1968—$105,000)	182,413	182,413
Properties and equipment (note 1):		
Buildings and equipment, at cost	9,789,735	9,687,135
Less accumulated depreciation	5,755,589	5,228,196
	4,034,146	4,458,939
Land, at cost	820,302	823,395
Total properties and equipment	4,854,448	5,282,334
	$14,930,996	$14,934,201

See accompanying notes to financial statements

Liabilities and Shareholders' Equity

	1969	1968 (note 3)
Current liabilities:		
Bank borrowings (note 2)	$ 5,095,997	$ 5,833,202
Owing for merchandise, wages, etc.	1,382,988	1,205,992
Taxes payable	427,934	216,377
Deferred income tax reductions (note 3)	276,000	243,526
Total current liabilities	7,182,919	7,499,097
Mortgage payable	34,542	39,451
Shareholders' equity:		
Capital stock—		
Authorized:		
300,000 Class A shares without nominal or par value, entitled to a fixed cumulative dividend of fifty cents per share per annum in priority to dividends on the Class B shares		
300,000 Class B shares without nominal or par value (note 4)		
Issued:		
201,600 Class A shares) 204,100 Class B shares) (note 4)	385,000	366,000
Contributed surplus (unchanged during year)	2,674,494	2,674,494
Earned surplus	4,654,041	4,355,159
Total shareholders' equity	7,713,535	7,395,653
	$14,930,996	$14,934,201

On behalf of the Board:

D. M. WOODS, Director

J. W. WALKER, Director

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

YEAR ENDED JANUARY 31, 1969 *(with comparative figures for the year ended January 31, 1968)*

	1969	1968
Sales (including sales of leased departments)	$35,356,991	$34,150,441
Income from operations before interest, depreciation and income taxes	$ 2,068,081	$ 1,882,146
Interest	483,784	466,998
Depreciation	552,277	624,414
Income from operations before income taxes	1,032,020	790,734
Income taxes (note 3)	531,000	398,702
Net income from operations	501,020	392,032
Dividend income		7,276
Net income for the year	501,020	399,308
Earned surplus, beginning of year	4,355,159	4,157,751
	4,856,179	4,557,059
Dividends paid to shareholders:		
On Class A shares—50¢ per share	100,800	100,800
On Class B shares—50¢ per share	101,338	101,100
	202,138	201,900
Earned surplus, end of year	$ 4,654,041	$ 4,355,159
Net income from operations per Class B share after payment of fixed preferential dividend of 50¢ per Class A share	$1.96	$1.44

See accompanying notes to financial statements

AUDITORS' REPORT

To the Shareholders of Gordon Mackay & Stores Limited:

We have examined the consolidated balance sheet of Gordon Mackay & Stores Limited and its subsidiaries as at January 31, 1969 and the consolidated statements of income and earned surplus and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1969 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada, March 21, 1969. Clarkson, Gordon & Co., *Chartered Accountants*

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

YEAR ENDED JANUARY 31, 1969 *(with comparative figures for the year ended January 31, 1968)*

	1969	1968 (note 3)
Source of funds:		
Operations and investments—		
Net income from operations	$ 501,020	$ 392,032
Add charges (credits) to operating income that did not represent a source or disposition of funds during the year:		
Depreciation	552,277	624,414
Deferred income tax charges (note 3)	(34,000)	(78,000)
Dividend income		7,276
Funds from operations and investments	1,019,297	945,722
5% special refundable tax	24,669	9,440
Proceeds on sale of properties and equipment	19,967	14,320
Stock options exercised	19,000	
Mortgage receivable		258,097
Total funds provided	1,082,933	1,227,579
Disposition of funds:		
Dividends paid	202,138	201,900
Acquisition of properties and equipment	144,358	144,769
Mortgage principal repayment	4,909	4,566
Total funds used	351,405	351,235
Increase in working capital	731,528	876,344
Working capital, beginning of year	1,867,688	991,344
Working capital, end of year	$ 2,599,216	$ 1,867,688

See accompanying notes to financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1969

1. Depreciation is written by the company at maximum rates normally permitted for income tax purposes (except for improvements to buildings leased for more than 15 years which are amortized more quickly than the maximum tax rates). The rates used are considered to reflect fairly the useful life of each type of asset used by the company. A summary of depreciable assets and accumulated depreciation is as follows:

	Cost	Accumulated depreciation
Buildings owned	$3,192,088	$1,127,244
Improvements to leased buildings	919,359	457,300
Furniture and equipment	5,678,288	4,171,045
	$9,789,735	$5,755,589

2. The company's bank borrowings (except for borrowings of a subsidiary operation) are secured by a first mortgage on properties and equipment and a floating charge on all of its other assets (other than the assets, totalling approximately $2,200,000, of the said subsidiary operation).

3. The income tax provision reflects the normal charge applicable to the income earned by the company as reported herein. As a result of differences in the timing of deductions for tax purposes and for book purposes, however, tax allowances may be received either earlier or later than the year in which the related expense is reflected in the books. Taxes prepaid with respect to depreciation allowances to be received in future years are shown on the balance sheet as "Deferred income tax charges". Other tax allowances, received before the related expense is written off in the books, are shown in the balance sheet as "Deferred income tax reductions". The comparative figures for 1968 have been restated to conform with the 1969 presentation.

4. During the year, under the company's Incentive Stock Option Plan, options were exercised on 1,900 Class "B" shares at $10.00 per share. At January 31, 1969, there were outstanding options on 15,000 shares (12,500 shares at $10.00, 500 shares at $11.00 and 2,000 shares at $12.50) expiring at various dates between 1970 and 1977.

LEASES

The company occupies its head office premises and 28 retail store locations on long-term leases for periods extending up to 21 years. Total rentals paid in the fiscal year ended January 31, 1969 on premises on long-term lease amounted to $676,000, including $74,000 under percentage of sales clauses.

PENSION PLANS

During the year an amendment to one of the company's pension plans increased the company's past service pension obligations by $112,000. At January 31, 1969 the total unfunded past service obligations is approximately $512,000 which is being absorbed by annual payments of $35,000 as recommended by the company's consulting actuary.

STATUTORY INFORMATION

The aggregate of direct remuneration paid to directors and senior officers and bonuses accrued with respect to the year ended January 31, 1969 was $203,615. The amount of bonuses paid in the year with respect to the preceding year's bonus accrual was $39,764.

FIVE YEAR REVIEW

FOR YEARS ENDED JANUARY 31

	1969	1968	1967	1966	1965
Sales (including sales of leased departments)	$35,356,991	$34,150,441	$33,299,930	$28,394,039	$25,211,603
Income from operations before interest, depreciation and income taxes	2,068,081	1,882,146	1,208,146	1,338,337	1,143,489
Interest	483,784	466,998	356,709	155,893	132,025
Depreciation	552,277	624,414	719,781	554,553	447,279
Income from operations before income taxes	1,032,020	790,734	131,656	627,891	564,185
Income taxes	531,000	398,702	58,900	295,150	281,000
Net income from operations	501,020	392,032	72,756	332,741	283,185
Net income for the year (note a)	501,020	399,308	122,543	514,126	386,308
Dividends paid	202,138	201,900	201,900	201,675	201,600
Property and equipment additions	144,358	144,769	2,712,486	1,506,305	786,503
Rentals on leased premises	676,000	644,000	646,000	625,500	549,000
Year end position (000's):					
Accounts receivable	4,120	4,087	3,934	3,101	2,335
Inventories	5,237	4,722	4,942	4,206	3,612
Bank borrowings (note b)	5,096	5,833	6,945	3,178	1,683
Working capital	2,599	1,868	991	3,033	3,541
Shareholders' equity	7,714	7,396	7,198	7,278	6,877
Net income from operations per Class B share after payment of fixed preferential dividend of 50¢ per Class A share	1.96	1.44	(.14)	1.15	.90
Dividend paid Class B	.50	.50	.50	.50	.50

NOTES:

(a) Including dividend income, profits on property disposals and income tax recoveries from losses carried forward from prior years.

(b) Includes special short term borrowing made for expansion purposes: 1969—$3,518,700; 1968—$4,251,000; 1967—$4,251,000; 1966—$975,000

SERVING THE CONSUMER

The forty-two Walker Stores of Ontario, plus Smith's of Windsor, employ over 2600 people, engaged in more than 100 kinds of jobs, some of which are depicted here, to meet the changing needs of today's consumer.

1. Mrs. Edie Weatherhead in Central Warehousing.
2. Norman Macdonald store designer.
3. Dan McDonald uses IBM data centre.
4. Fern Meghory creates fashion advertising.
5. We wait on the customer.
6. Modern stores for modern retailing.
7. Ruth Dale, Walker's dress buyer, reviews a line.
8. Peter Hutchings designs windows and displays.
9. Charley Getty, Smith's Merchandise Manager, discusses coats with Judy Skidmore.

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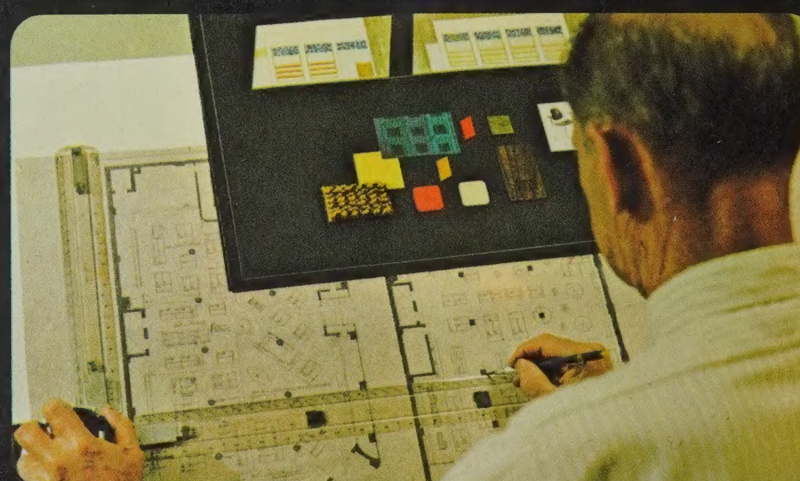
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